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October Sugar Update

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Report Highlights:

Ukraine's beet sugar production continues to recover from a decade of decline. The challenge for Ukraine is to balance raw cane sugar imports from Brazil and Cuba while exporting refined sugar in order to support high internal prices.

Includes PSD changes: Yes

Includes Trade Matrix: No

Unscheduled Report

Kiev [UP1], UP

Executive summary

Refined beet sugar production will increase slightly in MY 2002/2003 following increased sugar beet production. Ukraine will be required to modernize its inefficient sugar processing industry while at the same time face strong pressure from trading partners to continue to import raw cane sugar for processing and re-export.

Production

Ukraine's sugar beet harvest and sugar production began in Ukraine about two weeks earlier than usual this year. Farmers planted sugar beets early this year due to an unusually warm spring. However, rains during the last twenty days of September slowed down harvesting. Farmers harvested 2.7 MMT of sugar beets from 131,000 hectares as of September 30, 2002 as compared with 4.6 MMT harvested from 241,000 hectares through the same period in 2001. As was expected, large and middle-sized farms (the former collective farms) continued to reduce area under sugar beets in 2002 due to low profitability of the crop. The smaller private household plots, which utilize little or no machinery, continued to increase area planted to sugar beets this year. In 2002, 185,000 hectares were planted on small household plots as compared with 146,000 hectares in 2001. Despite the large increase, household plots did not fully offset the decline in area planted on the former collective farms. **The overall estimate of area planted was reduced reflecting official statistics.**

The estimate for harvested area has been reduced due to lower plantings this year. Private farmers take better care of their fields and usually harvest them completely. Large and middle-sized farms normally abandon about 10-12% of planted area due to low yields and/or bad weather at the time of harvest. For 2002, it is expected that private households will harvest 95% of planted area while the former collective farms will harvest 92% as yields are higher this year as compared with 2001.

The sugar beet production estimate has been slightly increased based on higher than expected yields. Refineries slowed down sugar production due to recent rains which delayed the sugar beet harvest. The average weight of one beet on September 10, 2002 was 319 grams as compared with 307 grams in 2001. While sucrose content in 2002 has been higher than in 2001, it fell in September due to rainy weather. Plant density is lower at 78,000 plants per hectare as compared with 79,000 plants in 2001. Farmers took better care of their fields in 2002 as credit became more widely available, resulting in higher application of mineral fertilizers. The weather has also been generally favorable in the major sugar beet growing areas, except for a long hot and dry spell in July. According to the Association of Sugar Producers of Ukraine, approximately 16.5 million MT of beets will be harvested in 2002.

The beet sugar production estimate has been increased to reflect higher output of sugar beets. The number of operating sugar refineries will decrease from 147 in 2001 to 138 this year. Certain factories were unable to received a portion of the quota to produce and supply sugar to the domestic market (quota "A"). According to the Ministry of Agricultural Policy, 1.794 million MT of the 1.8 million MT quota "A" (refined sugar basis) were distributed amongst 138 factories. Twenty-one of these factories also received the right to produce an additional 98,000

MT of sugar within the "B" quota (sugar that must be exported). This decline in the number of factories which will process sugar beets in 2002 should improve the efficiency of sugar production by allowing factories to better utilize their available processing capacities. Fewer factories also means a longer processing season; albeit, the season is not expected to last beyond December 2002.

Consumption

Sugar consumption in MY 2002/2003 is forecast at the same level as the revised current marketing year's estimate of 2.02 million MT, despite higher than expected beet sugar production. This reflects higher anticipated exports for MY 2002/2003. Sugar consumption in MY 2001/2002 was reduced to reflect higher export expectations. Actual domestic consumption in MY 2002/2003 (adjusted for illegal sugar imports) will also likely remain unchanged from the level of the previous two marketing years at 2.2 million MT (raw value).

Prices

In MY 2002/2003, the GOU did not change the minimum purchase price for sugar beets or the wholesale sugar price from MY 2001/2002 price levels. The minimum purchasing price for sugar beets and refined sugar remain at UAH 165 (\$31) and UAH 2,370 (\$447) per MT, respectively. There are no guarantees, however, that the GOU can control sugar prices through this mechanism. The actual market price for sugar in MY 2002/2003 could fall below the minimum fixed price as has already occurred this marketing year.

According to Ukrainian legislation, market operators should refrain from selling sugar at a price lower than the minimum fixed price set by the GOU under penalty of severe fines. Nevertheless, actual sugar wholesale prices have been lower than the GOU fixed price due to the lack of an enforcement mechanism. Unrestrained imports of both raw cane sugar and refined sugar are exacerbated by the presence of illegally imported sugar. This forces Ukraine's sugar traders to sell sugar at prices which are lower than the minimum fixed price. Official price statistics do not reflect this situation. **In this report, Post has provided actual market prices as gathered by the Association of Sugar Producers of Ukraine.** These prices differ from the official retail prices provided in the last annual report (GAIN Report #2005). According to the Association, prices began to reach the minimum price level of \$447 per MT in May 2002 and slightly exceeded that target in August 2002 (see price table).

Imports

The GOU has not announced a raw cane sugar TRQ for MY 2001/2002 or MY 2002/2003. Meanwhile, legal sugar imports continue to flow into Ukraine and will likely continue through MY 2002/2003. Importers have found legal ways to by-pass the prohibitively high import duty by importing through Ukraine's free-economic zones (FEZ). Importing through a FEZ is more costly than under a TRQ. Nevertheless, importing via the FEZ still permits traders to avoid paying the standard EUR 300 per MT import duty. The increase in import costs explains the decline in legal imports and the associated increase in smuggled sugar from neighboring countries during MY 2001/2002.

The estimate for raw cane sugar imports in MY 2001/2002 remains unchanged. Ukraine imported approximately 230,000 MT of all sugar in October 2001-August 2002 (see monthly import table). Brazil and Cuba were the main suppliers of raw cane sugar while Russia, Moldova, Lithuania and the Czech Republic were the main suppliers of refined white sugar.

In addition to legal imports, about 200,000 MT of sugar are estimated to be illegally imported in MY 2001/2002. Illegal imports are not accounted for in the PSD table. Illegal imports of sugar are believed to have increased this marketing year from an estimated 100,000 MT in MY 2000/2001 because of high internal sugar prices and availability of lower priced refined raw cane sugar in neighboring Russia, Moldova and Belarus.

Exports

Ukraine's exports of sugar in MY 2002/2003 are forecast higher than earlier expected, but lower than the revised MY 2001/2002 export estimate. Despite the fact that the GOU allocated 98,000 MT of beet sugar as quota "B" in MY 2002/2003 (sugar to be exported), it is doubtful that this sugar will actually leave Ukraine. Ukrainian beet sugar is not price-competitive in the Russian Federation, Belarus and other former major markets. Quota "B" sugar will most likely be diverted into the more attractive quota "A" and sold within Ukraine.

According to official statistics, exports of all sugar increased in MY 2001/2002. Exports took place mainly in July and August 2002. Beet sugar exports are estimated at only 1-2% of total sugar exports while the bulk consists of refined imported raw cane sugar. Azerbaidzhan was noted as the major buyer of sugar from Ukraine.

Stocks

The GOU has unsuccessfully tried to create an effective price support system through intervention purchases. It is doubtful that the intervention stock mechanism will become effective in MY 2002/2003 due to budget constraints. The GOU could only finance the purchase of 10,000 MT of sugar from the 50,000 MT earmarked for purchase in Fall 2001.

It has been determined that the State Committee on Material Reserves must purchase at least 300,000 MT of sugar in MY 2002/2003 in order to support prices at the targeted level. Unfortunately, the GOU announced that funding is only available to purchase 25,000 MT during the current year, a small percentage of sugar stocks. Unbelievably, much of Ukraine's carry-over stock of sugar is held by private households in 50 kilo bags, rather than by the GOU or private industry.

The MY 2001/2002 ending stocks estimate has been slightly reduced to reflect higher exports.

Trade Policy

Ukraine continues to negotiate accession to the World Trade Organization (WTO). Brazil, Cuba, Australia, India and Argentina have repeatedly asked Ukraine to establish a TRQ for 350,000 MT

of raw cane sugar and to set a within-TRQ import duty of 2%. Most likely, Ukraine will agree to the quota but at a reduced level of 200,000 to 250,000 MT per year. The import duty is expected to be lowered to 2-5% from the existing standard 50% (but not less than EUR 300 per MT). **The challenge remains for Ukraine to export large quantities of refined cane sugar while maintaining high internal beet sugar prices in order to support domestic farm income and profits for the languishing Ukrainian sugar processing industry.**

Ukraine Sugar Beets PSD Table (1,000 hectares, 1,000 MT)

	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		09/2000		09/2001		09/2002
Area Planted	856	856	971	971	970	932
Area Harvested	747	747	852	852	870	860
Production	13200	13200	15490	15490	16000	16500
TOTAL SUPPLY	13200	13200	15490	15490	16000	16500
Utilization for Sugar	13200	13200	15490	15490	16000	16500
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	13200	13200	15490	15490	16000	16500

Ukraine Centrifugal Sugar PSD Table (1,000 MT raw value)

	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Beginning Stocks	277	277	256	256	196	186
Beet Sugar Production	1687	1687	1790	1790	1900	1950
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	1687	1687	1790	1790	1900	1950
Raw Imports	260	260	200	200	100	130
Refined Imp.(Raw Val)	140	140	50	50	30	20
TOTAL Imports	400	400	250	250	130	150
TOTAL SUPPLY	2364	2364	2296	2296	2226	2286
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	8	8	50	90	20	60
TOTAL EXPORTS	8	8	50	90	20	60
Human Dom. Consumption	2100	2100	2050	2020	2000	2020
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	2100	2100	2050	2020	2000	2020
Ending Stocks	256	256	196	186	206	206
TOTAL DISTRIBUTION	2364	2364	2296	2296	2226	2286

Monthly Sugar Imports into Ukraine (HS 1701)

Month	1,000 MT	Month	1,000 MT
Oct-00	1.8	Oct-01	0.8
Nov-00	0.0	Nov-01	22.8
Dec-00	18.7	Dec-01	35.6
Jan-01	1.2	Jan-02	1.7
Feb-01	1.8	Feb-02	9.7
Mar-01	26.7	Mar-02	19.0
Apr-01	26.2	Apr-02	0.5
May-01	33.0	May-02	12.6
Jun-01	25.4	Jun-02	15.5
Jul-01	106.9	Jul-02	51.2
Aug-01	163.5	Aug-02	60*
Sep-01	5.3	Sep-02	
Total Oct 00 - Sept 01	410.5	Total Oct 01 - Aug 02	229.4

Data Source: Ukragroconsult Ltd.

*Post estimate

Centrifugal Beet Sugar Wholesale Prices, UAH per 1 kilogram

Prices in	US\$	per uom	1 MT
Year	2001	2002	% Change
Jan	452.83	386.79	-14.58%
Feb	469.81	390.57	-16.87%
Mar	477.36	398.11	-16.60%
Apr	473.58	430.19	-9.16%
May	467.92	447.17	-4.44%
Jun	460.38	439.62	-4.51%
Jul	466.04	443.40	-4.86%
Aug	na	471.70	
Sep	441.51		
Oct	424.53		
Nov	392.45		
Dec	386.79		

Data Source: Ukrainian Sugar Producers Association (www.ukrsugar.kiev.ua)

Average monthly retail refined sugar prices were converted into US dollars using UAH 5.3/US\$1.00 exchange rate.

Note: The minimum fixed sugar wholesale price for both MY 2001/2002 and MY 2002/2003 is fixed by the GOU at UAH 2.37 per 1 kilogram.